ENVIPRO HOLDINGS, Inc.

Financial Results Briefing

August 23, 2019

Event Summary

[Company Name]	ENVIPRO HOLDINGS Inc.
[Event Type]	Earnings Announcement
[Event Name]	Financial Results Briefing
[Fiscal Period]	FY2018 Annual
[Date]	August 23, 2019
[Number of Pages]	33
[Time]	13:30 – 14:21 (Total: 51 minutes, Presentation: 42 minutes, Q&A: 9 minutes)
[Venue]	Nikkei Kayabacho Bekkan B1 2-6-1 Kayabacho Nihonbashi, Chuo-ku, Tokyo 103-0025 (Hosted by The Securities Analysts Association of Japan)
[Venue Size]	
[Participants]	45
[Number of Speakers]	3

Tomikazu Sano	Representative Director, President, and CEO
Naoki Takekawa	Executive Officer and Manager, Corporate Planning
Yasushi Sugiyama	Manager of Finance

Presentation

Moderator: Thank you all very much for waiting. Let us now begin an investor relations meeting for ENVIPRO HOLDINGS Inc.

Before starting the presentation, we would like to ask all of you one thing. You should have a questionnaire on hand. Please complete it during the meeting and put it on your desk when you leave the venue.

Now, we are introducing three speakers from the Company. Representative Director, President, and CEO, Mr. Tomikazu Sano.

Sano: I'm Sano. Thank you very much.

Moderator: Executive Officer and General Manager of Corporate Planning, Mr. Naoki Takekawa.

Takekawa: I'm Takekawa. Thank you very much.

Moderator: General Manager of Finance, Mr. Taiji Sugiyama.

Sugiyama: I'm Sugiyama. Thank you very much.

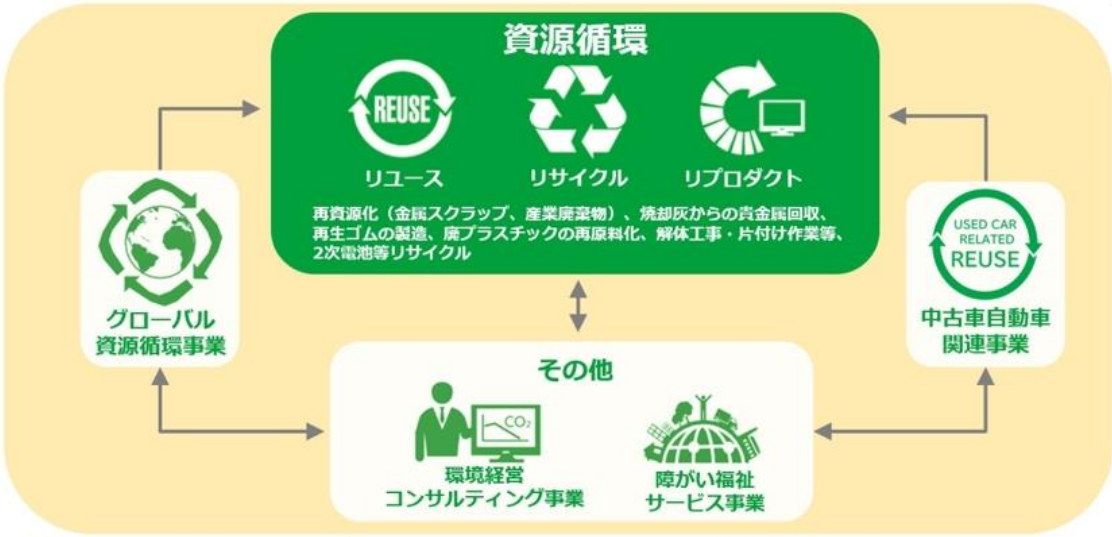
Moderator: Today, President Mr. Sano will make a presentation, and afterward, we will hold a question-and-answer session.

Mr. Sano, please start.

Sano: Hello, everyone. I'm Sano from ENVIPRO. Thank you for gathering despite it being hot today. Now, we will hold a briefing session on our financial results.

Today, you have four items on hand, but I would like to explain mainly one and two. Item one is about the past figures, and this contains some overlapping figures with those already disclosed in the Consolidated Financial Results, et cetera, so I will only briefly explain about item one. I will focus on the explanation for this fiscal year, which is ending June 30, 2020.

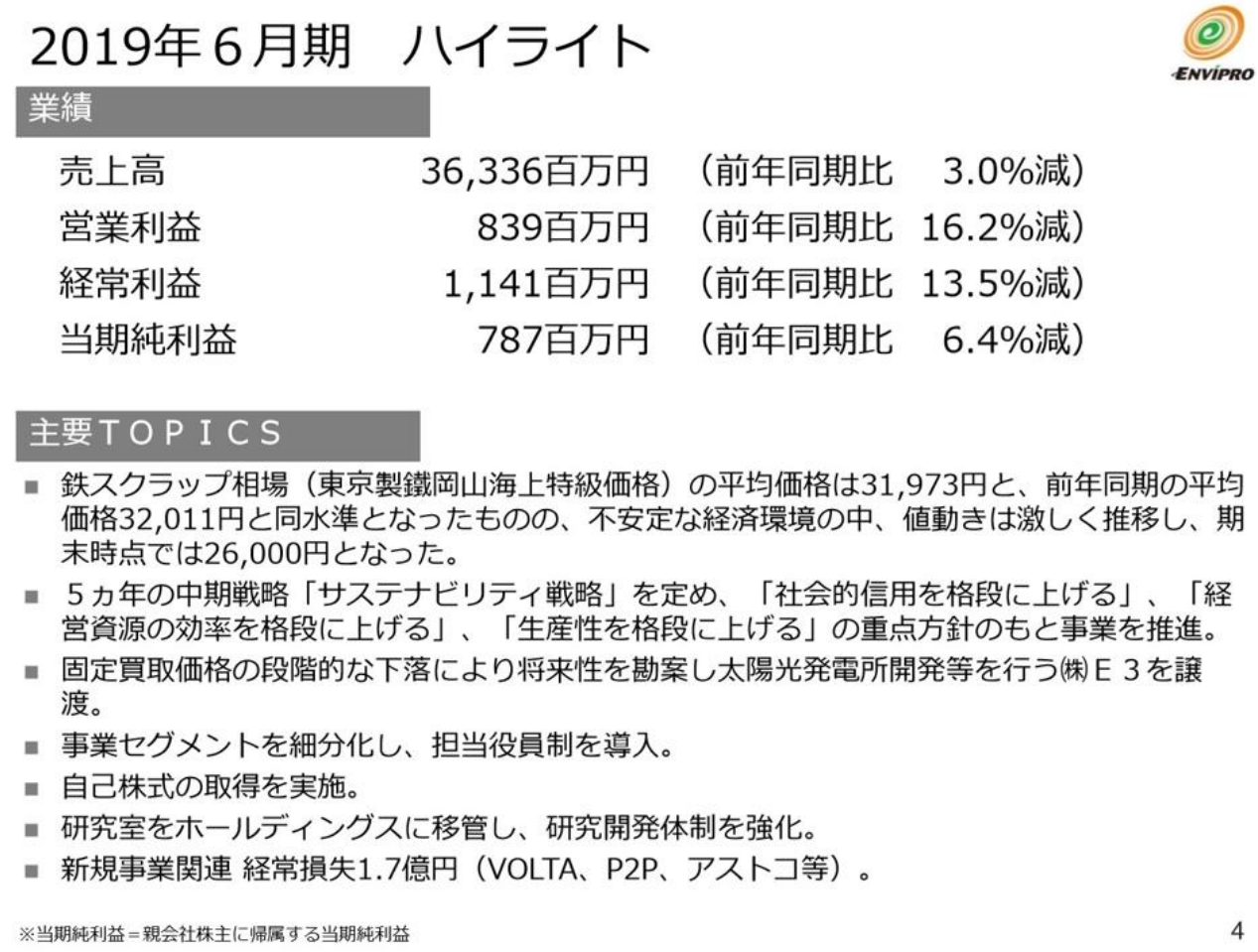
事業セグメント



事業セグメント	事業会社
資源循環事業	㈱エコネコル加工部門、㈱クロダリサイクル、㈱しんえこ、 ㈱東洋ゴムチップ、㈱プラ２プラ、㈱ＶＯＬＴＡ 持分法適用関連会社　㈱アビヅ、㈱富士エコサイクル
グローバル資源循環事業	㈱エコネコル貿易部門
中古自動車関連事業	㈱３ＷＭ（海外子会社３社含む）
その他	（環境経営コンサルティング事業）㈱ブライトイノベーション （障がい福祉サービス事業）㈱アストコ
調整	㈱エコネコル共通、㈱エンビプロ・ホールディングス

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Until now, we have been doing our business in a single segment. Since we have often received opinions that our business operation is very difficult to understand, we divide it into four segments in this presentation. It may still be a little complicated, but I would like to ask you for your patience.



These figures have already been disclosed, and we are ashamed that we posted declines in sales and profits. Although the steel scrap market price remained almost the same as in the fiscal year ended June 30, 2018, eventually the steel scrap market price in the previous fiscal year were ended at 26,000 yen, the trend of which was declining.

We have formulated a five-year plan for sustainability, which we call the "Sustainability Strategy" to increase social credibility and the efficiency and productivity of our management resources.

Talking about a company E3, which was a developer of solar power, this company’s profitability was deteriorating as FIT prices are declining, so we transferred the share it to the person who was the president of E3.

We have divided the business segments mentioned earlier and have introduced an executive officer system for each segment. In addition, we repurchased our own shares.

We had a laboratory in Econecol Inc., which is one of our subsidiary, but in order to meet the need to adopt chemical approaches such as VOLTA, we have transferred it to ENVIPRO HOLDINGS and hired two employees in the chemical-related positions. This structure is now enabling us to oversee the overall operation of our group.

That said, we recorded an ordinary loss of 170 million yen for VOLTA, P2P, and ASTOCO Inc., which we are doing as new business.

2019年６月期　連結損益計算書概要

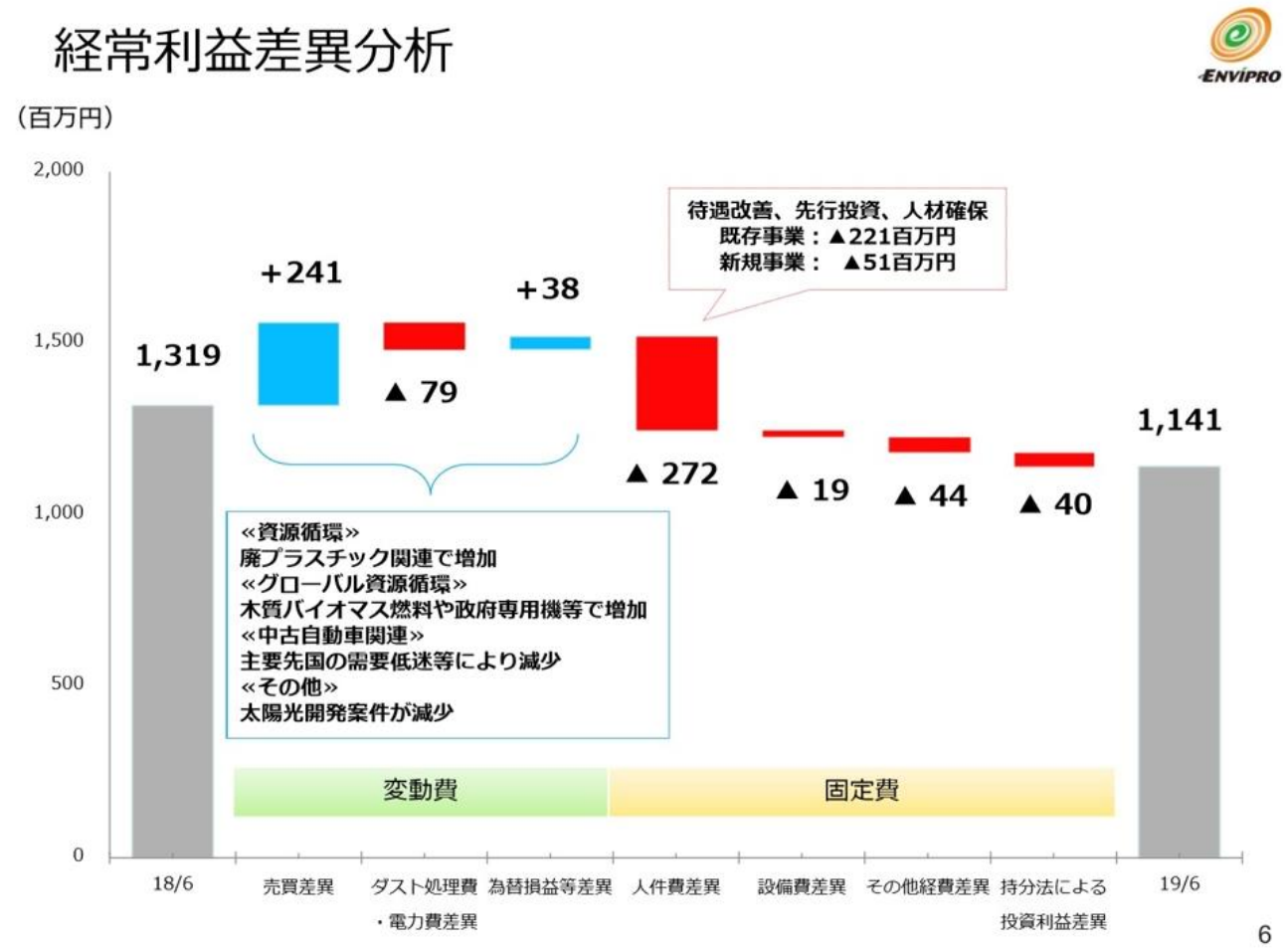
（百万円）

	2018年6月期	2019年6月期	前年同期比		2019年6月期	対前回公表比	
	実績	実績	増減額	増減率	前回公表	増減額	増減率
売上高	37,456	**36,336**	▲ 1,119	▲3.0%	36,332	4	0.0%
売上総利益	6,541	**6,454**	▲ 86	▲1.3%	—	—	—
営業利益	1,002	**839**	▲ 162	▲16.2%	867	▲ 27	▲3.2%
経常利益	1,319	**1,141**	▲ 178	▲13.5%	1,174	▲ 32	▲2.8%
税金等調整前当期純利益	1,221	**1,138**	▲ 83	▲6.8%	—	—	—
当期純利益※	840	**787**	▲ 53	▲6.4%	778	8	1.1%
限界利益	6,481	**6,681**	199	3.1%	—	—	—
ＥＢＩＴＤＡ※	1,638	**1,482**	▲ 155	▲9.5%	—	—	—
純粋固定費※	5,449	**5,786**	337	6.2%	—	—	—
ROE	8.6%	**7.1%**	▲1.5%	▲17.0%	—	—	—

※当期純利益＝親会社株主に帰属する当期純利益
※ＥＢＩＴＤＡ＝営業利益＋減価償却費＋のれん償却
※純粋固定費＝【売上原価・販管費・営業外費用の固定費相当分】－【為替差益・持分利益を除いた営業外収益分】

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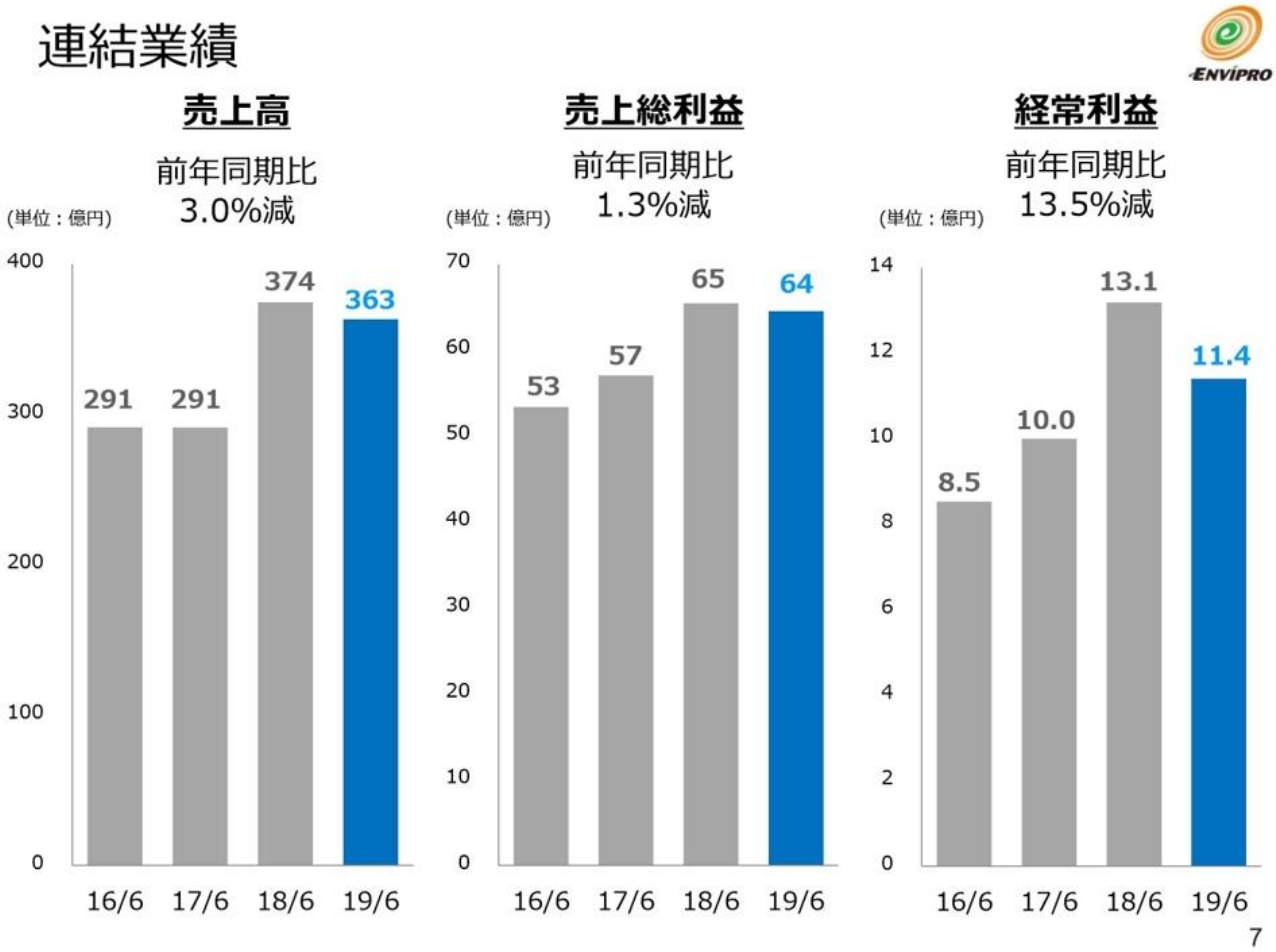
Here, I would like to mention in particular an increase in pure fixed costs, mainly personnel expenses, came to 337 million yen, despite the decrease in gross profit, et cetera.



Gains on sales and purchases increased in waste plastic-related products, and also, a positive contribution was made by woody biomass business and the sales of one of two retired government planes we purchased, posted in the previous fiscal year ended June 30, 2019. However, profits from used cars and the development of solar power and other products are declining.

As I mentioned earlier, this 272 million yen as the personnel expenses, accounts for the majority of the 337 million fixed costs mentioned earlier. This increase of 272 million yen includes the improvement of treatment of personnel in existing businesses and the securing of new personnel such as upfront investments.

The Company had provided a bonus of five months' salary, but since about three years ago, we have been raising by 0.25 months. Last year's bonus was five and a half months' salary. We are going to raise to five and three quarters in the fiscal year ending June 30, 2020, and the Company has declared the increase of employees' salary and has issued the message to Employees to keep working in our company in future. The people at the workplace may react sensitively to this, and I believe that a company that can survive is a company that can secure human resources by adjusting personnel expenses. This situation is particularly true in the front-line jobs, so we intentionally raise personnel expenses one of upfront investment first as a fixed cost.



These are comparison charts by calendar year for reference.

2019年６月期　セグメント別業績概要

（百万円）

売上高	2018年６月期	2019年6月期		前期比
	実績	実績	構成比	増減率
連結	37,456	**36,336**	100.0%	▲ 3.0%
資源循環事業	12,898	**12,712**	35.0%	▲ 1.4%
グローバル資源循環事業	22,817	**21,870**	60.2%	▲ 4.2%
中古自動車関連事業	6,552	**6,195**	17.0%	▲ 5.4%
その他※	502	**382**	1.1%	▲ 23.8%
消去	▲ 5,313	**▲ 4,824**	▲ 13.3%	-

セグメント利益	2018年６月期	2019年6月期		前期比
	実績	実績	構成比	増減率
連結	1,319	**1,141**	100.0%	▲ 13.5%
資源循環事業	997	**833**	73.0%	▲ 16.4%
グローバル資源循環事業	247	**448**	39.3%	81.6%
中古自動車関連事業	178	**18**	1.7%	▲ 89.4%
その他※	17	**38**	3.4%	121.7%
消去・調整	▲ 120	**▲ 197**	▲ 17.3%	-

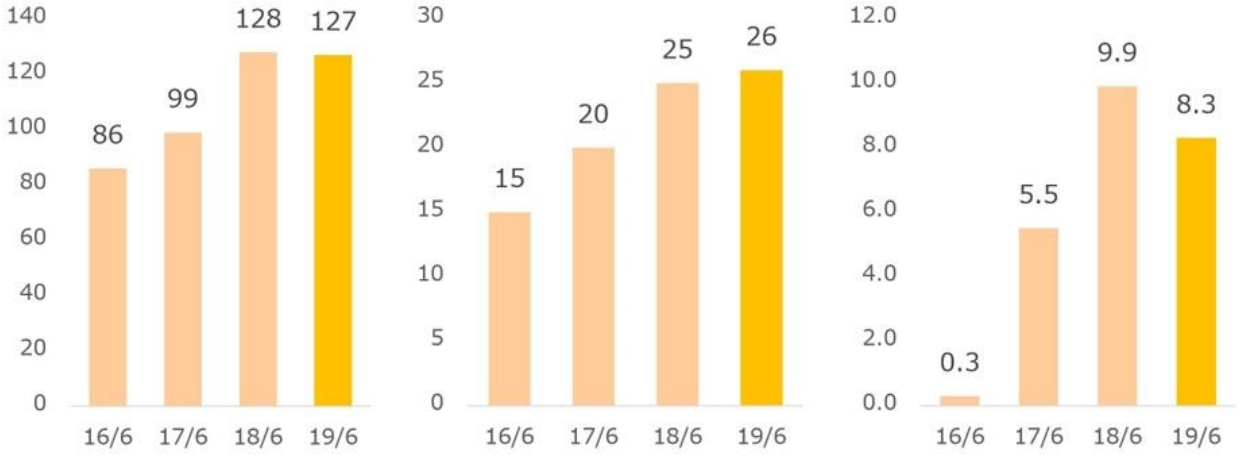
※その他には、2018年12月までの㈱Ｅ３実績を含む

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These are the performance results by segment, which have already been disclosed. As you can see, there are four segments. Sales of the Global Resource Circulation Business are larger than that of the Resource Circulation Business because the Global Resource Circulation Business deals with overseas trading. However, in terms of profit, the Resource Circulation Business posted 833 million yen and the Global Resource Circulation Business posted 448 million yen. This means that 80% or 90% of total profit comes from the Resource Circulation Business

セグメント別実績【資源循環事業】

(単位：億円)



- 雑品・プラスチックの国内還流による工場加工原料の増加
- ＲＰＦ原料等の処分費値上げ交渉が進捗。一方、当社が支払う処分費も値上げで増加
- 人件費増加（待遇改善、先行投資、人材確保）
- VOLTA工場の一部稼働（新規事業VOLTA・P2Pで経常損失1.1億円）
- プラスチックの亜臨界融合（バイオマス・炭素繊維等とプラスチックの融合）事業開始（６月）

※RPF：Refuse derived paper and plastics densified Fuelの略

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Next, this slide shows sales, gross profit, and ordinary profit of the Resource Circulation Business. As I mentioned earlier, since waste plastics and mix metals do not go to China, waste plastics and mix metals are recycled and remain in Japan. In this sense, the procurement of these products is increasing, and the high processing fees are contributing to gross profit.

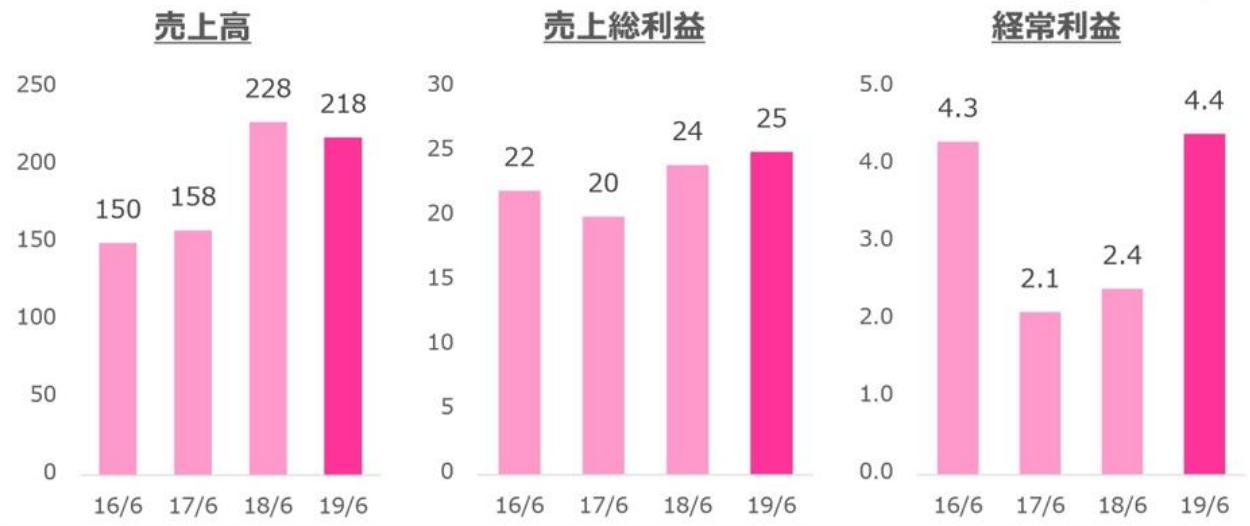
On the other hand, while price increases of RPFs, et cetera, have progressed, there are some things that we need to discard. The cost of waste and incineration has nearly doubled, and the balance with this has become extremely important.

As I mentioned earlier, we are intentionally increasing personnel expenses with the main aim of better employee treatment. I will explain about VOLTA, one of our subsidiaries which is a recycle company of litium ion batteries in detail later, but a part of the system went into operation. I mentioned earlier that ordinary loss of 170 million yen belongs to the Resource Circulation Business. However, in the Resource Circulation Business, ordinary loss was 110 million yen for these two companies.

This will be discussed in more detail later, but we have started in June the business using special technology called subcritical fusion. While demonstrating the technology, we will continue to develop products together with our customers who are going to use the technology.

セグメント別実績【グローバル資源循環】

(単位：億円)



- 前半は鉄スクラップの内外価格差の減少により低迷したが、後半は相場の下降局面を活用したことで、活発な取引が続き増益
- 木質バイオマス事業が黒字化
- 政府専用機の販売（１機分）
- 国内鉄スクラップ集荷ヤード増設（尼崎港）

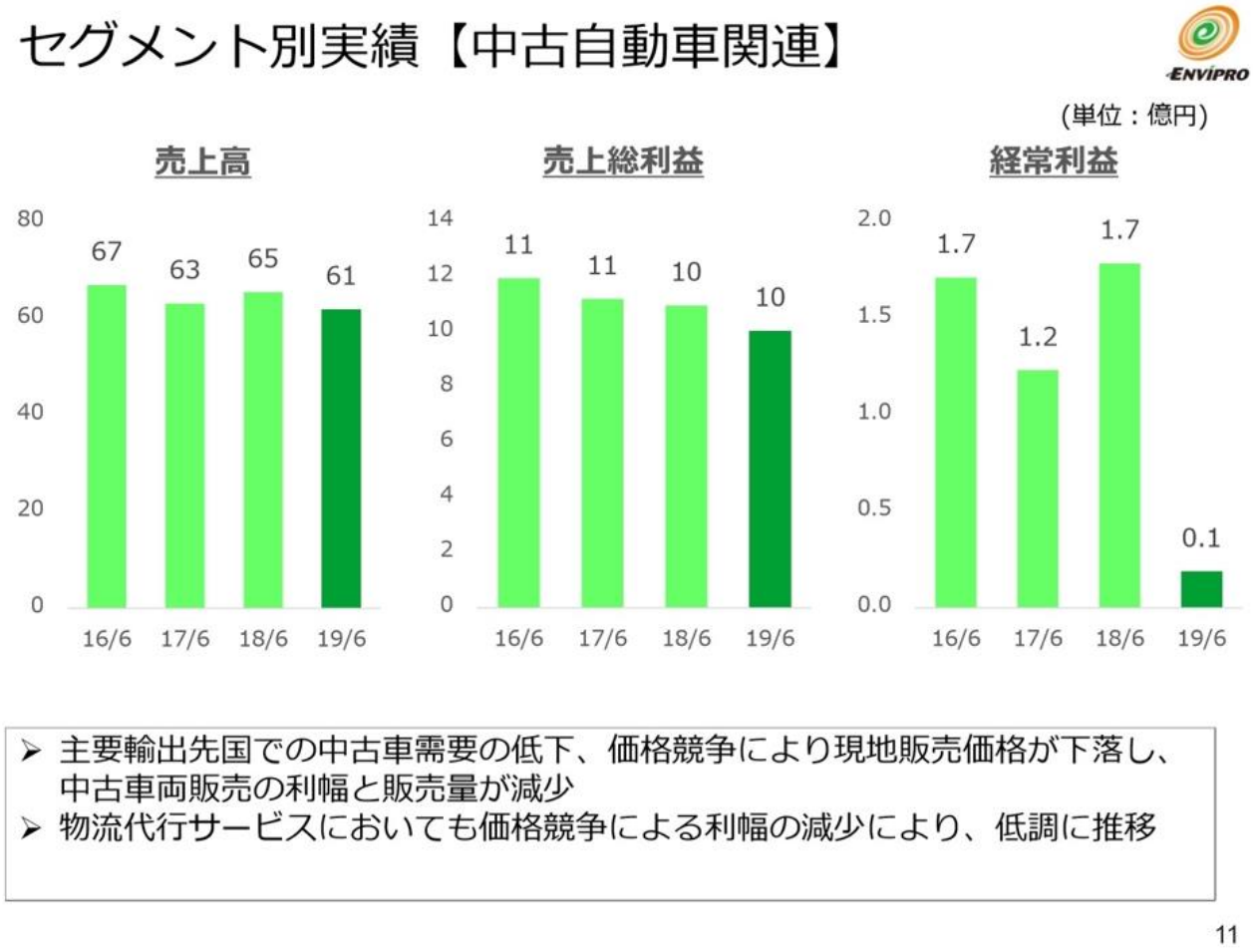
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In terms of Global Resource Circulation Business, there was very little difference between domestic and overseas prices in the first half of the fiscal year. In the case of scrap steel export, if prices are high overseas and prices are cheap in Japan, they can be bought at prices higher than those of domestic steelworks, so in the first half of the year, we struggled slightly. In the second half, we secured profits by making advance sales in a declining market.

Woody biomass was in the loss for about three years, but it has returned profitable.

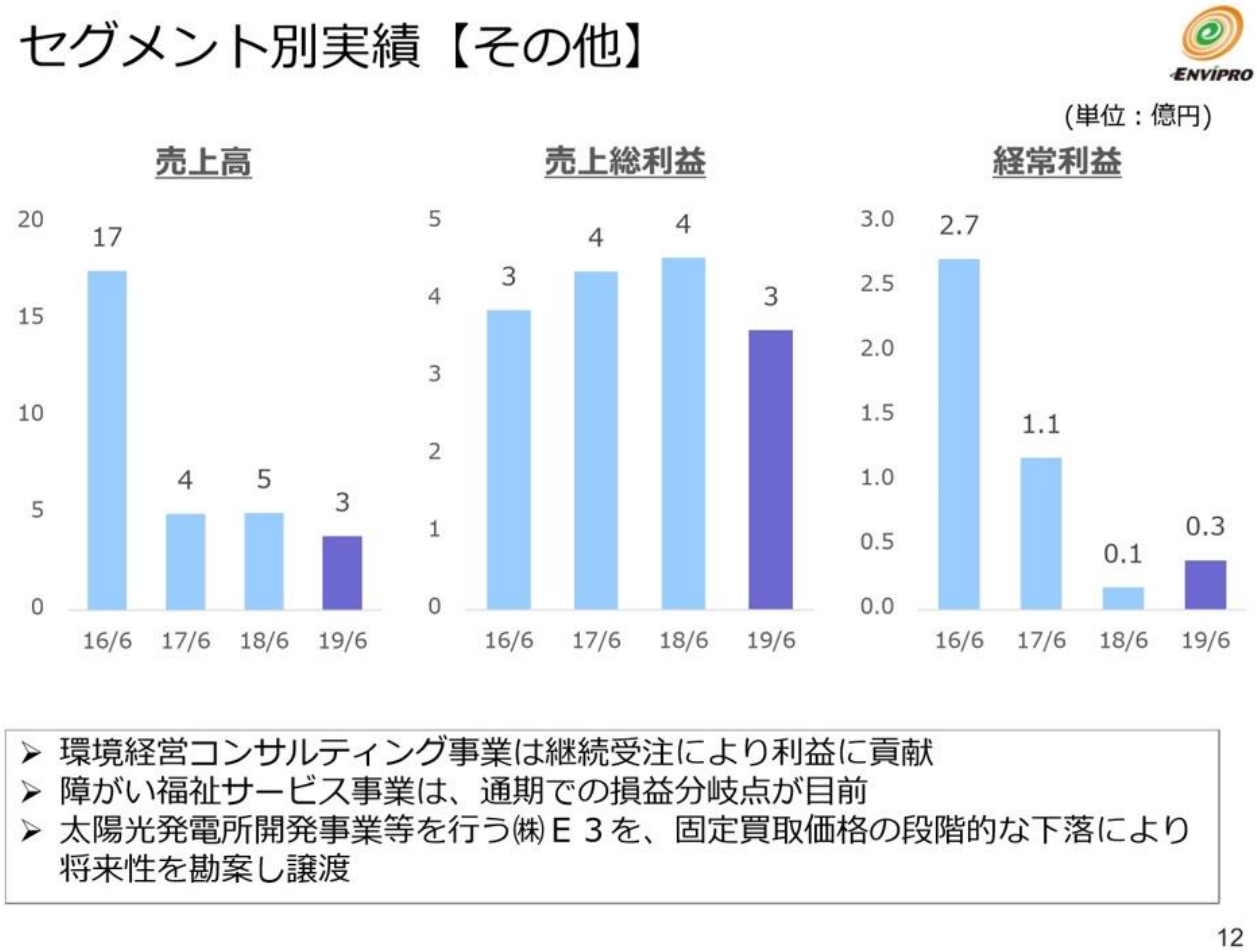
Trading of One retired government plane contributed to profits.

Additionally, we renewed a collection yard, which was originally established in Amagasaki, to make it larger and opened it.



Used Cars-Related Business is struggling. Its profit amounted to 170 million yen in FY2018 but 10 million yen in FY2019 because of extremely fierce price competition. Profits are also declining in the Logistics Division, so we feel that this business itself is at a major turning point.

We are taking on a variety of challenges, including purchases in three locations: Uganda, Chile, and UAE. However, the fact that it is difficult to produce results suggests that there is a need for a major review of this business. Since this business started from export of Japanese engines, if engine cars are replaced with electric vehicles, Japanese engines will not be able to differentiate themselves, and this may be a matter of time. That said, I would like to keep trying for a little more time.



In other areas, we developed solar power generation systems in the fiscal years ended June 30, 2016, and June 30, 2017, and this contributed to our efforts when Resource Recycling Business was in an extremely harsh situation. As I mentioned earlier, we transferred this business and are currently consulting on CO2 reductions in environmental management consulting, mainly CDPs, carbon disclosure projects.

It does not have a significant financial impact, of course, and it is not even a deficit. We have business relationships with a dozen of leading Japanese companies, including automakers. In that sense, the capital of human relations has been accumulated, and taking advantage of this, we are considering switching to consultation business related to "circular economy," so to speak. I believe that this will eventually contribute to the business of our group.

Another topic is RE100. We serve as the secretariat for 100 companies of renewable energies. There are more than 10 companies. We can gain the most advanced information related to the environment through these companies, and this is greatly beneficial to us because we can transform the Company by obtaining the most advanced information. I believe that it will continue to play an active role in this area.

In the fourth quarter, we recorded a monthly profit in the Welfare Service Business for Persons with Disabilities. We still have a deficit of about 20 million yen throughout the year, but we expect to see a surplus in the current fiscal year. We plan to build a facility in another place, Fujinomiya. The president of the facility has the strong desire to expand the age groups they accommodate and support people with development disabilities, everything cetera I would like to support the president. This construction does not have a significant impact on the Company's finance. In the sense that no one in the world will be left behind, which is stated in the preamble to the recent SDGs, we believe that we can add value other than the Company's finances in the section S, or in the section S in terms of ESG.

Welfare Service Business is very compatible with recycling work, while manufacturing is not so compatible. It is very compatible with selection work or work that requires concentration. While contributing to society as a business, including collaboration with existing businesses, we also carry out recycling business. Considering a labor shortage, these two things are valuable in the sense of encouraging these people to play an active role. So far, I have taken on the challenge of digital signage. We will concentrate on resource recycling and will continue to focus on these two areas in order to complement them.

連結貸借対照表概要

（百万円）

	2018年6月末	2019年6月末	増減額		2018年6月末	2019年6月末	増減額
流動資産	11,492	11,152	▲ 340	流動負債	7,135	5,172	▲ 1,962
固定資産	10,168	8,607	▲ 1,561	固定負債	3,258	3,025	▲ 232
（有形固定資産）	5,442	6,130	688	負債合計	10,393	8,197	▲ 2,195
（無形固定資産）	95	89	▲ 5	純資産	11,268	11,562	293
（投資その他の資産）	4,630	2,386	▲ 2,243	（株主資本）	10,889	11,195	306
資産合計	21,661	19,759	▲ 1,901	負債純資産合計	21,661	19,759	▲ 1,901

主要ＴＯＰＩＣＳ

- 流動資産（現金及び預金▲2,112百万円、受取手形及び売掛金238百万円、商品及び製品+962百万円）
- 固定資産（土地・建物211百万円、機械装置426百万円、出資金▲2,411百万円）
- 流動負債（短期借入金▲2,421百万円）
- 固定負債（長期借入金▲295百万円）
- 自己資本比率　56.7%（前年対比6.4%増）
- ㈱E3の譲渡により出資金・短期借入金が減少し経営の安定性が向上

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This is the balance sheet. A temporary increase in short-term borrowing or investing in solar power are no longer necessary. Total assets decreased by about 2.0 billion yen. Therefore, the equity ratio has risen, and the current ratio has become overwhelmingly better. I believe that the Company's financial soundness is improving.

連結キャッシュ・フロー計算書概要

（百万円）

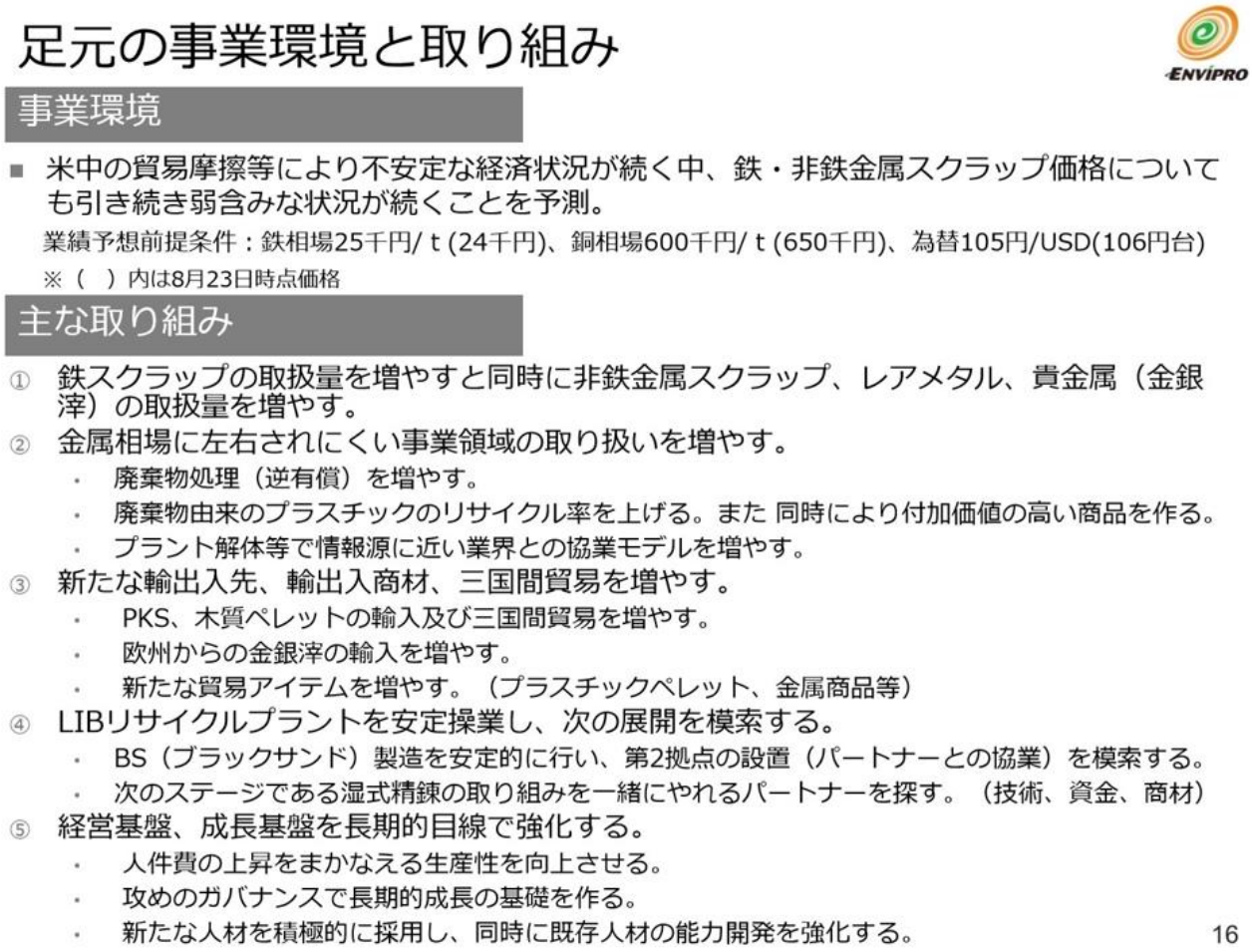
項　目	2018年６月期	2019年６月期	増減額
営業活動によるキャッシュ・フロー	843	▲ 87	▲ 931
投資活動によるキャッシュ・フロー	▲ 618	▲ 601	16
財務活動によるキャッシュ・フロー	2,550	▲ 1,440	▲ 3,990
現金及び現金同等物に係る換算差額	15	▲ 12	▲ 28
現金及び現金同等物の増減額	2,790	▲ 2,142	▲ 4,932
現金及び現金同等物の期首残高	2,066	4,856	2,790
現金及び現金同等物の期末残高	4,856	2,714	▲ 2,142

主要ＴＯＰＩＣＳ

- 営業ＣＦ：（収入）税金等調整前当期純利益1,138百万円、減価償却費638百万円
  （支出）たな卸資産増加1,012百万円、法人税等の支払額492百万円、売上債権の増加261百万円、持分法投資利益増加246百万円
- 投資ＣＦ：（収入）出資金の回収による収入1,520百万円
  （支出）有形固定資産の取得1,220百万円、出資金の払込による支出942百万円
- 財務ＣＦ：（支出）短期借入金の返済588百万円、長期借入金の返済571百万円、**自己株式取得273百万円**

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The repayment of borrowings and the recovery of investments are shown in the slide. It is noteworthy that we have acquired 273 million yen shares of our own stock, which we had originally set a target of 500 million yen, but we managed to curtail it to 273 million yen.



We move on to the fiscal year ending June 30, 2020. Amid continued instability due to US-China friction and other factors, resource prices have also been sluggish. Under the circumstances, we expect that the current period will not be the same as the previous period in terms of prices.

In the previous fiscal year, the price of steel was around 32,000 yen, but for the current fiscal year, we are forecasting 25,000 yen. Yesterday, however, it fell another 1,000 yen to 24,000 yen, which is now lower than planned. This may be fluctuating. The forecast price of copper is 600,000 yen. The current price is 650,000 million yen, and we are conservatively setting our forecast to be on the safe side.

We are looking at 105 yen of exchange rate against the current 106 yen.at present.

As for our main initiative, we will steadily work to increase the volume of metals in our existing businesses. On the other hand, we would like to increase waste by expanding business domains that are less susceptible to metal prices. Because waste disposal does not produce profits, we will focus on recycling business to increase recycling rate and in turn generate profits.

With regard to the above-mentioned subcritical fusion, our aim is to add more value. The price of plastic pellets is about 70 yen, but I would like to take on the challenge of fusing them with carbon fiber so that the price triples or can even raise 10 times if possible.

In addition, I would like to create such a collaborative model as the one we have created in the previous fiscal year with industries that are close to information sources, such as plant dismantling.

We also work to increase new destinations for exports and imports, exporting and importing goods, and trilateral trade. We will increase imports and trilateral trade of PKS and wood pellets and trilateral trade. Additionally, we will import silver and gold slags from Europe. As we received samples in the previous fiscal year, we intend to increase this import business in the current fiscal year. We will also increase the number of new trade items.

We will stably operate a lithium-ion battery recycling plant, VOLTA, which will finally start full operation in September. We will discuss details later, but this has been in the red for a long time. We are the first company that uses heat. Since this plant releases fluorochemicals and other hazardous gases, we have devoted a considerable amount of time to environmental facilities in the area, planning carefully. We have been slightly behind the schedule, but while stably operating these facilities, trial operation will continue throughout this year.

In addition, the next phase is hydrometallurgy. At the same time as taking on this challenge, we will establish a second base in the same manner as VOLTA. I would like to seek partners with whom we can work together, including partners, technologies, funds, and products. I would like to have 3.0 billion yen to 5.0 billion yen and even more capital expenditures for hydrometallurgy. We will explain this later.

In addition, by strengthening our management and growth foundations from a long-term perspective, we are raising personnel expenses, as I mentioned earlier. We will raise productivity to cover these expenses.

In order to build the foundation for long-term growth through aggressive governance, we believe that occupational safety is our most important internal control. We want to build a company that is safe and to operate our business efficiently and with effective internal control.

We would also like to hire new personnel. We launched the ENVIPRO Business School two years ago, and we will continue to do this in the current fiscal year to develop the skills of existing personnel.

2020年６月期業績見通し（連結）

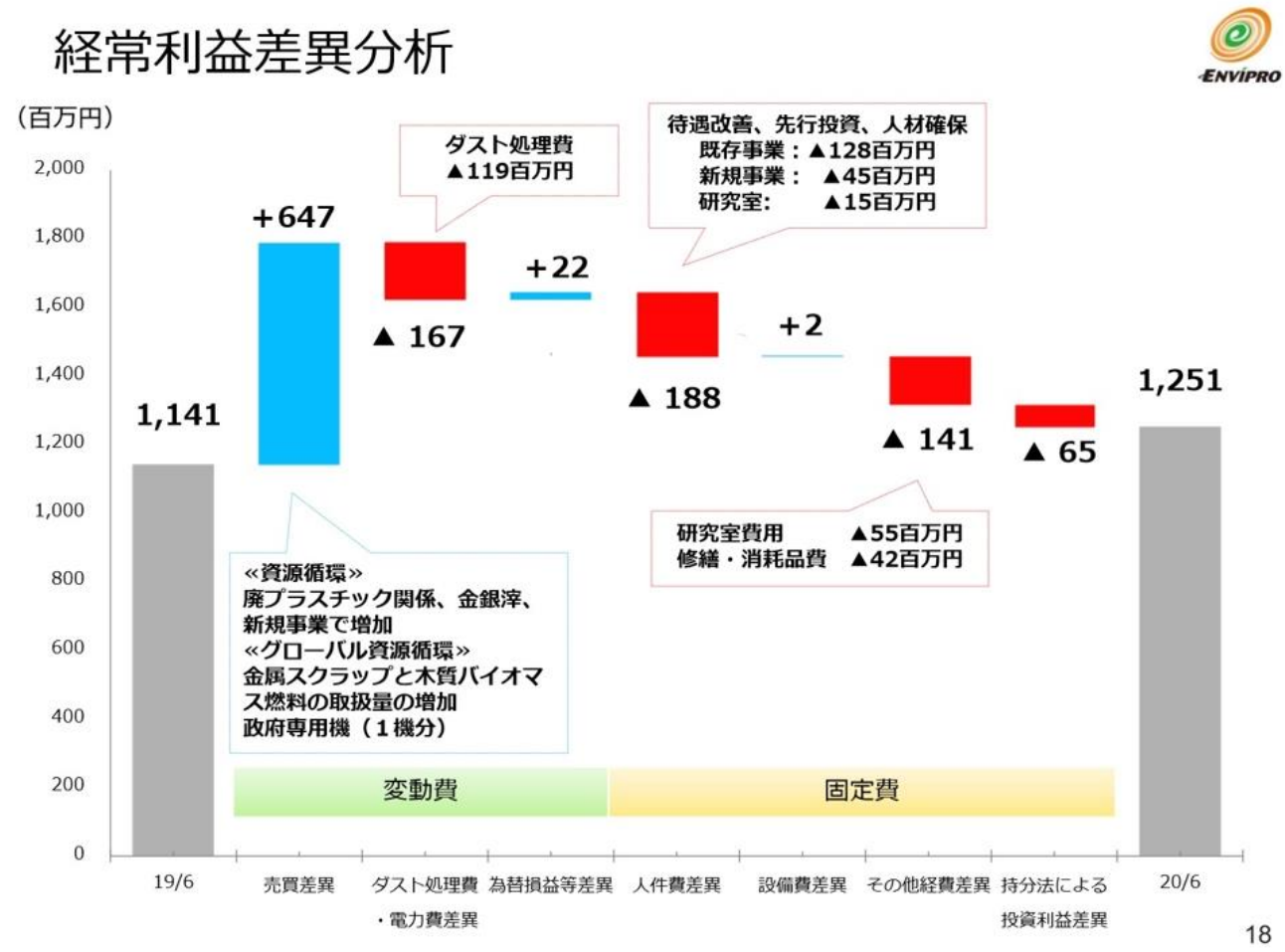
（百万円）

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売上総利益	6,541	6,454	**7,440**	985	15.3%
営業利益	1,002	839	**981**	141	16.9%
経常利益	1,319	1,141	**1,251**	109	9.6%
税金等調整前	1,221	1,138	**1,258**	119	10.5%
当期純利益※	840	787	**892**	105	13.4%
限界利益	6,481	6,681	**7,184**	502	7.5%
ＥＢＩＴＤＡ	1,638	1,482	**1,634**	151	10.2%
純粋固定費	5,449	5,786	**6,114**	327	5.7%
ROE	8.6%	7.1%	**7.7%**	0.6%	8.4%

※当期純利益＝親会社株主に帰属する当期純利益
※ＥＢＩＴＤＡ＝営業利益+減価償却費+のれん償却
※純粋固定費＝【売上原価・販管費・営業外費用の固定費相当分】-【為替差益・持分利益を除いた営業外収益分】

17

I move on to the outlook for the fiscal year ending June 30, 2020, which has already been disclosed. Ordinary profit is expected to be 1.251 billion yen. Pure fixed cost is expected to increase by 327 million yen, the majority of which is personnel costs. As I mentioned earlier, we will provide a quarter month's salary as a bonus, which is the final raise, and this will increase the fixed cost. However, we are planning to produce gross profit exceeding the cost, resulting in around 100 million yen increase of ordinary profit this fiscal year.

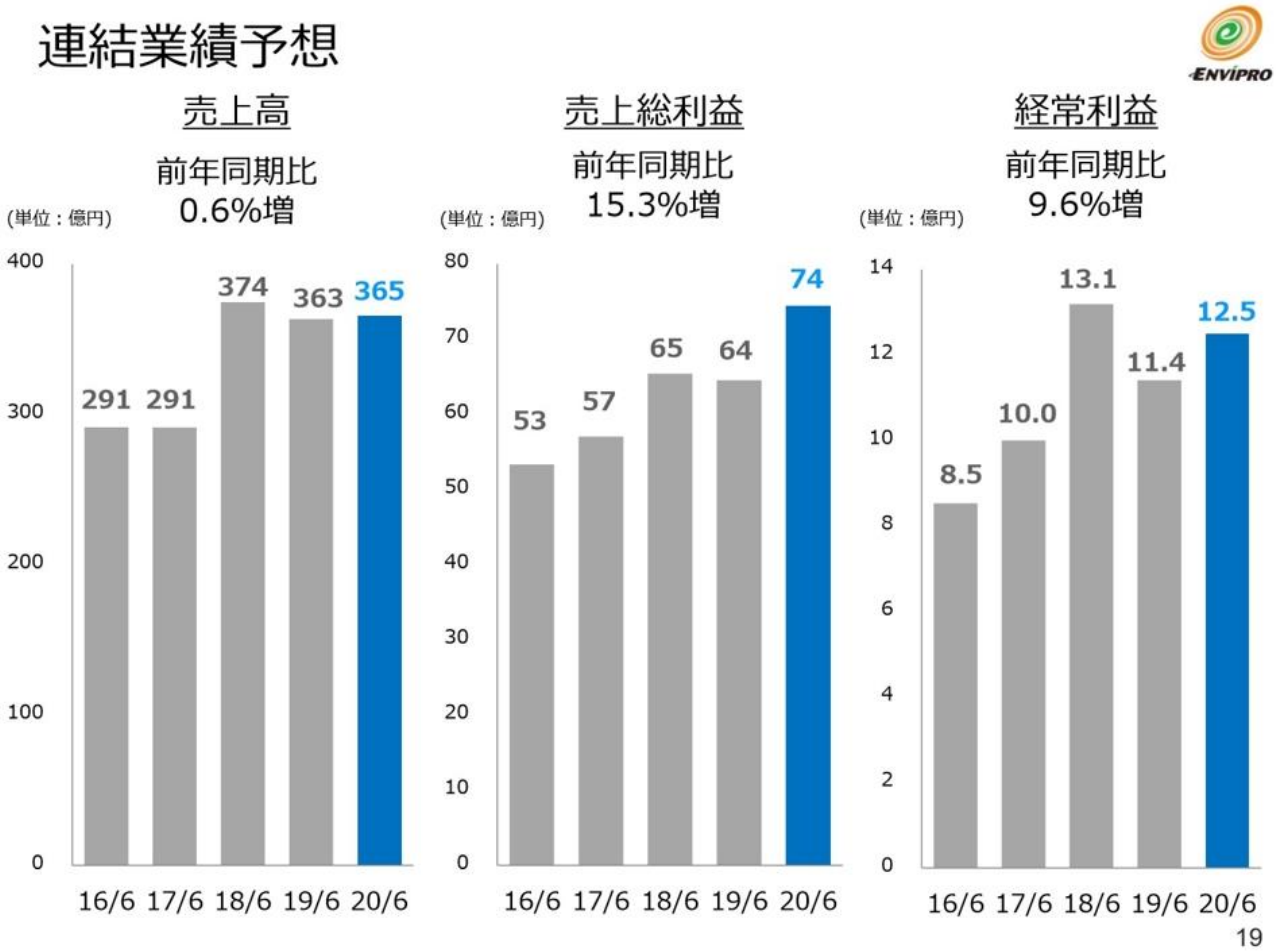


As explained earlier, we are gaining 647 million yen from selling and purchasing. Costs of recycling resources and waste plastic have become increasingly widespread, so processing costs are expected to increase. We also plan to increase the volume of gold and silver slags. Sales from new businesses are also expected to increase compared to the previous fiscal year, which is a positive factor.

With regard to Global Resource Recycling, we are planning to increase the volume of metal scrap and to increase the volume of woody biomass. The remaining one government plane, which has already been sold, will contribute to sales profit for the current fiscal year.

However, as to dust disposal costs, costs for incineration and landfill disposal, which I mentioned earlier, will increase this year as well. The more waste disposal for compensation we accept, the more recycling work we have to carry out. This means that the higher the absolute amount of waste, the higher the disposal cost. At the same time, as I explained, by raising personnel expenses as treatment improvement, the amount of personnel expenses will increase by 188 million yen.

Considering the investment in a variety of experimental equipment in the laboratories and other items which does not contribute directly to profits, we are planning to increase expenditures by 141 million yen by ensuring that consumables are used as well.



These charts show the figures by calendar year. Sales in the fiscal year ended June 30, 2018, were a little higher than other years and have no longer increased due to the influence of the market price. In terms of gross profit and ordinary profit, they seem to have been increasing for the past five years.

2020年６月期業績見通し（セグメント）

（百万円）

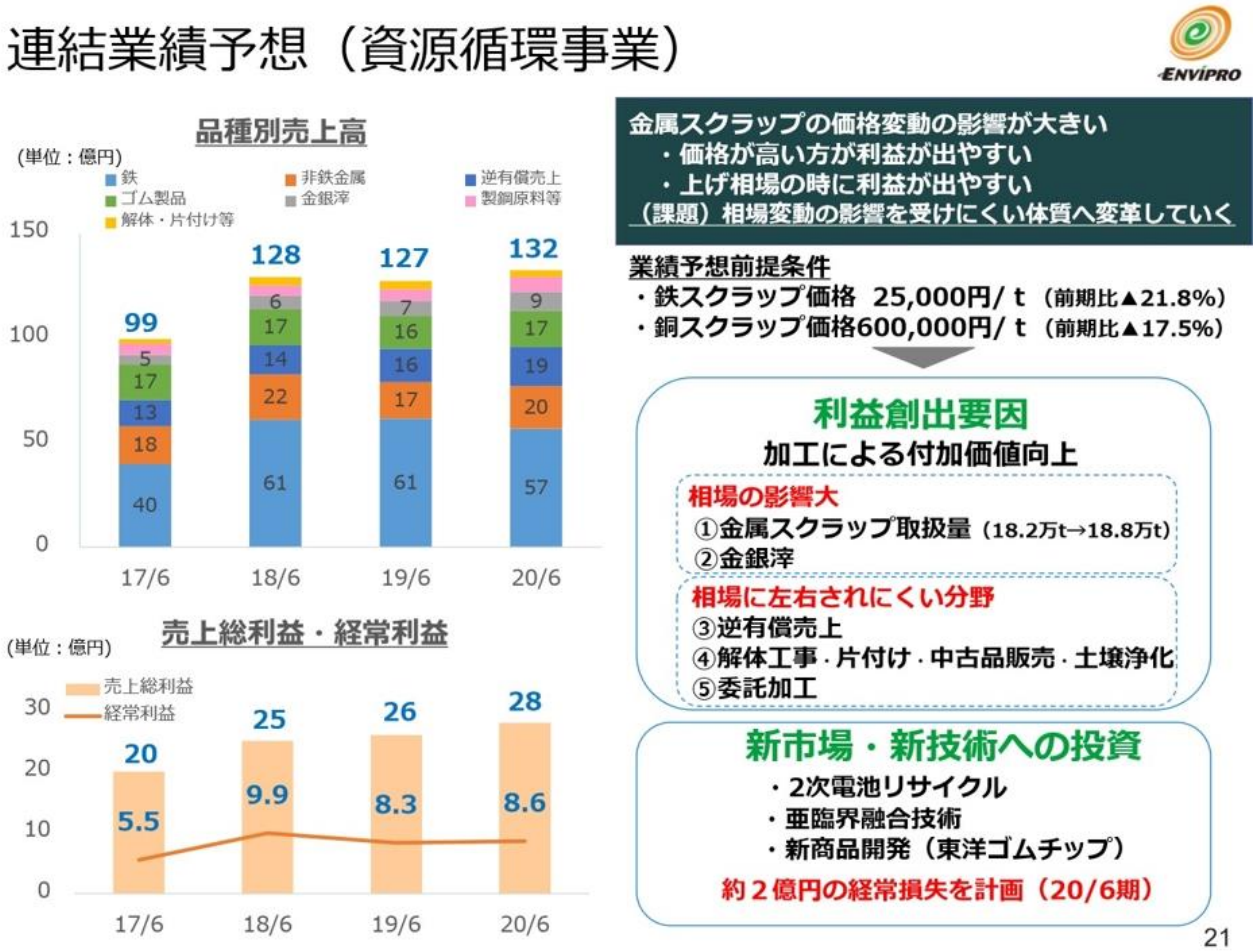
売上高	2018年６月期	2019年6月期	2020年6月期		
	実績	実績	予想	増減率	構成比
連結	37,456	36,336	**36,571**	0.6%	100.0%
資源循環事業	12,898	12,712	**13,225**	4.0%	36.2%
グローバル資源循環事業	22,817	21,870	**21,261**	▲ 2.8%	58.1%
中古自動車関連事業	6,552	6,195	**6,173**	▲ 0.4%	16.9%
その他	502	382	**289**	▲ 24.4%	0.8%
消去	▲ 5,313	▲ 4,824	**▲ 4,378**	-	▲ 12.0%

セグメント利益	2018年６月期	2019年6月期	2020年6月期		
	実績	実績	予想	増減率	構成比
連結	1,319	1,141	**1,251**	9.6%	100.0%
資源循環事業	997	833	**865**	3.8%	69.1%
グローバル資源循環事業	247	448	**526**	17.3%	42.1%
中古自動車関連事業	178	18	**89**	372.1%	7.1%
その他	17	38	**24**	▲ 35.9%	2.0%
消去・調整	▲ 120	▲ 197	**▲ 253**	-	▲ 20.3%

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With regard to the outlook by segment, the forecast looks like last year's plan, and we expect to generate 865 million yen in profit in the Resource Circulation Business and a 526-million-yen profit in the Global Resource Circulation Business. For used cars, last year's figure was 10 million yen, but we are expecting to achieve these figures by reducing the fixed costs because we are making a good start so far.

In other areas, environmental management consulting and welfare service operation for persons with disabilities are also stable, although the amount is small. This will not result in a deficit.



From here on, I will go into a little more detail about what I have not been able to explain until now.

First of all, the Resource Circulation Business is greatly affected by price fluctuations of metal scrap. In particular, the higher the absolute price, the more likely we are to make a profit. Also, it is easy for us to make a profit when the market price rises. In global market, it is easier to make a profit when the market prices are declining. Our business is prone to be affected by the market price.

Therefore, we need to transform ourselves to a company that is not susceptible to market fluctuations. As listed in the slide, the factors that create profits in this Resource Circulation Business include crushing, sorting, and selecting, as well as the selection of heavy liquid, wind power, weight, and sensors. Increasing added value through processing is a major source of profit.

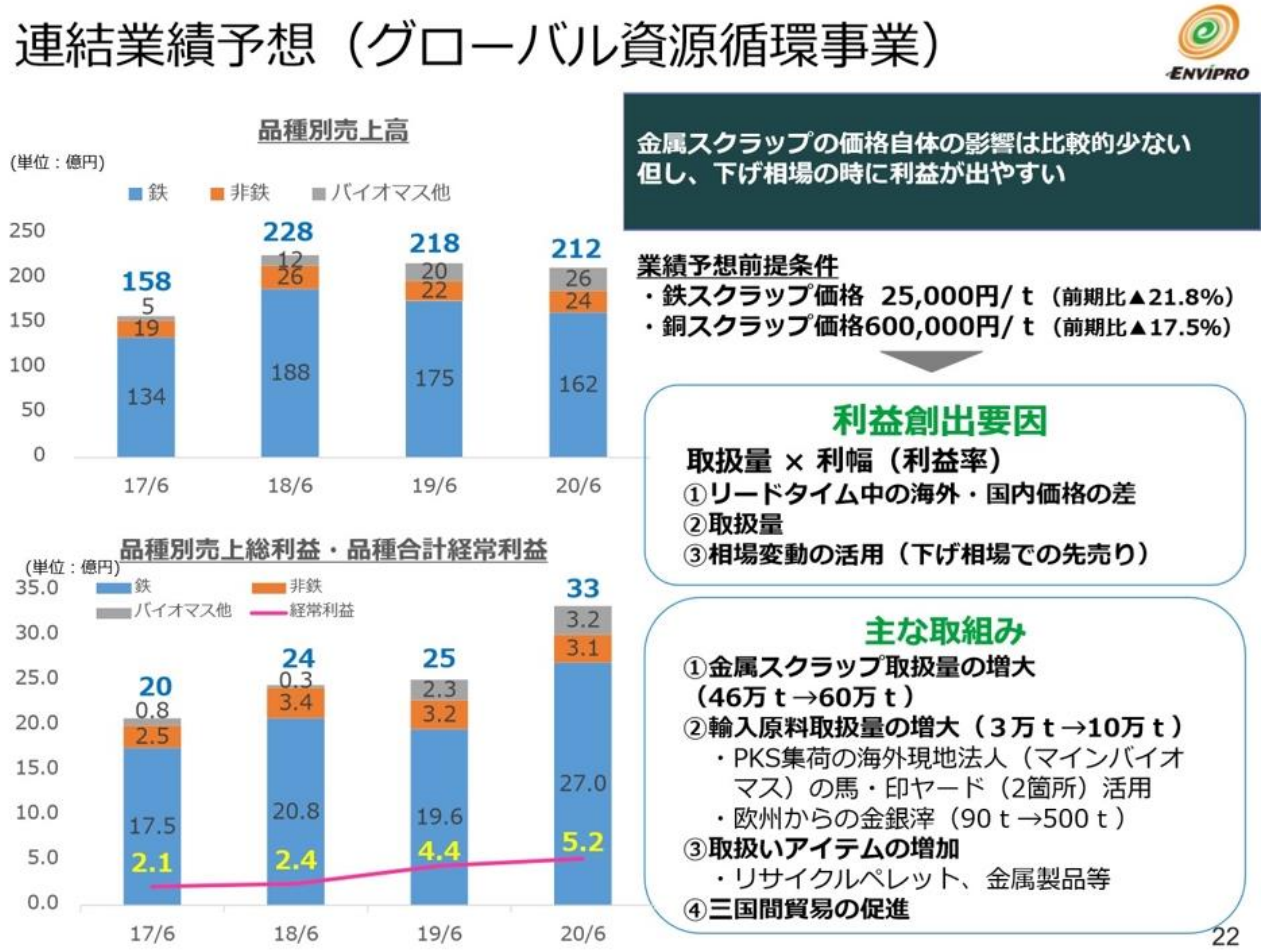
Under these circumstances, scrap of base metals, including steel and non-ferrous metals, is highly susceptible to market fluctuations. The more volume we handle, the more profit we make. We plan to increase the handling volume by about 6,000 tons this fiscal year.

I will tell you in more detail later, but we will focus our efforts on gold and silver slags.

In addition, proceeds from disposal for compensation are less susceptible to market fluctuations. Other than that, demolition work, removal, sales of used goods, and soil cleanup. Recently, there has been an increase in outsourcing of processing from major refining companies. I would like to focus on businesses that increase gross profit regardless of market prices by receiving processing charge.

In addition, we are working on the secondary batteries recycling business, VOLTA, to invest in new markets and technologies, and also subcritical fusion technology. Our subsidiary, TOYO RUBBER CHIP Co, Ltd., used to carry a single business that produces a rubber for filling with artificial turf and a rubber pavement called elastic pavement. However, we decided to develop new products employing subcritical fusion technology. We have already implemented various trial manufacturing and other measures using subcritical fusion technology, and we expect these trial will affect ordinary income as investment expenditure of approximately 200 million yen.

Here, as you can see, the blue part and the right side of the far bottom show steel scrap. Non-ferrous metals are second from the bottom, and proceeds from disposal for compensation are third from the bottom, meaning receiving money. This is very profitable. Rubber and gold and silver slags is shown on top of that. The remainder is the "Others" sales structure. On the other hand, we expect gross profit to be 2.8 billion yen and ordinary profit to be 860 million yen. This is the plan for the Resource Circulation Business for this fiscal year.



The global business deals with metal scraps, especially steel scrap. The higher the price of steel scrap itself is, the more active the business will become. The fact that the impact of prices is relatively small, in terms of profits from sales and purchases utilizing fluctuations in prices, is somewhat different from the domestic business of resource recycling mentioned earlier.

Particularly in two months and three months, we always make advance sales, which makes it easier for us to make a profit when prices are declining.

Factors behind the profit generation from this trading include the large volume handled and the large profit margin. This is obvious. That's why prices are different both in Japan and abroad. If overseas prices are higher than domestic prices, it is easier to gather goods. At the next steelworks, if the yard is on the quay, you can

buy them higher than the next steelworks, so naturally, you will handle it more. You will make a profit if there is a difference in prices between inside and outside of the factory, in terms of lead time after selling.

The market is not going down all the time. There are occasions when the market can hit our business because we make advance sales when prices are declining. Sometimes, however, when the market is likely to see an uptrend, we take the measures to hold down advance sales a little. Considering relationships with customers, it is impossible to stop trading, and it is necessary to wait for the market to rise and sell by holding down the selling side a little. However, there are also occasional failures, and there are some areas that are somewhat unstable.

We are making a profit even when the market is relatively cheap, but the commodity is actively traded. We dealt with 460,000 tons of steel scrap in the previous fiscal year, including non-ferrous metal scrap. As an initiative for the current fiscal year, we plan to increase it to 60,000 tons. Currently, we are likely to achieve around that level.

In the fiscal year ended June 30, 2019, we imported 30,000 tons of biomass, but in the fiscal year ending June 30, 2020, we plan to import 100,000 tons. We have one location in Malaysia to collect goods and established another one in Indonesia and started operation there. Our biomass business had a great deal of trouble until last year because it's a buyer's market. However, it is now performing favorably, and we are planning a variety of projects, including long-term contracts from the current term to the next term and the construction of a plant for wooden pellets other than PKS, but we have not decided yet. We believe this division will become a major business pillar.

Furthermore, we are planning to increase the import volume of gold and silver slags in Europe from 90 tons to 500 tons. Items handled include recycled pellets and metal products.

With the aim of increasing trilateral trade volume, we have set targets of 16.2 billion yen for steel alone, 2.6 billion yen for non-ferrous metals and biomass, 3.3 billion yen for gross profit, 520 million yen for ordinary profit.

今期のトピックス

①LIBリサイクルプラントの現状及びセカンドフェーズを見据えた今後の課題

②金銀滓回収事業の拡大

③中国輸出が止まった廃プラスチック、雑品への対応

④プラント解体、残置物の片付け、中古品販売、土壌浄化

⑤エンビプロＨＤ研究室の発足（エコネコルから移管）

23

Now, I would like to talk about five topics.



This VOLTA is about 500 million yen. Capital expenditures totaled about 1.4 billion yen including this VOLTA's 500 million in the previous fiscal year. We are planning to invest about 1.8 billion yen this fiscal year, and the first round of capital investments in VOLTA has almost been completed.

In September of 2018, we started the operation of the line for crushing electrode materials. This is a plant, like an extension of the past plant, which removes carbon from copper foils of negative electrode materials, and 30 tons to 50 tons of negative electrode materials are processed per month. We couldn't process cathode materials, which is main, because the production plant was not in operation, so it was not possible to do so. Electric furnaces and kilns are used to derive electricity and then bake the materials.

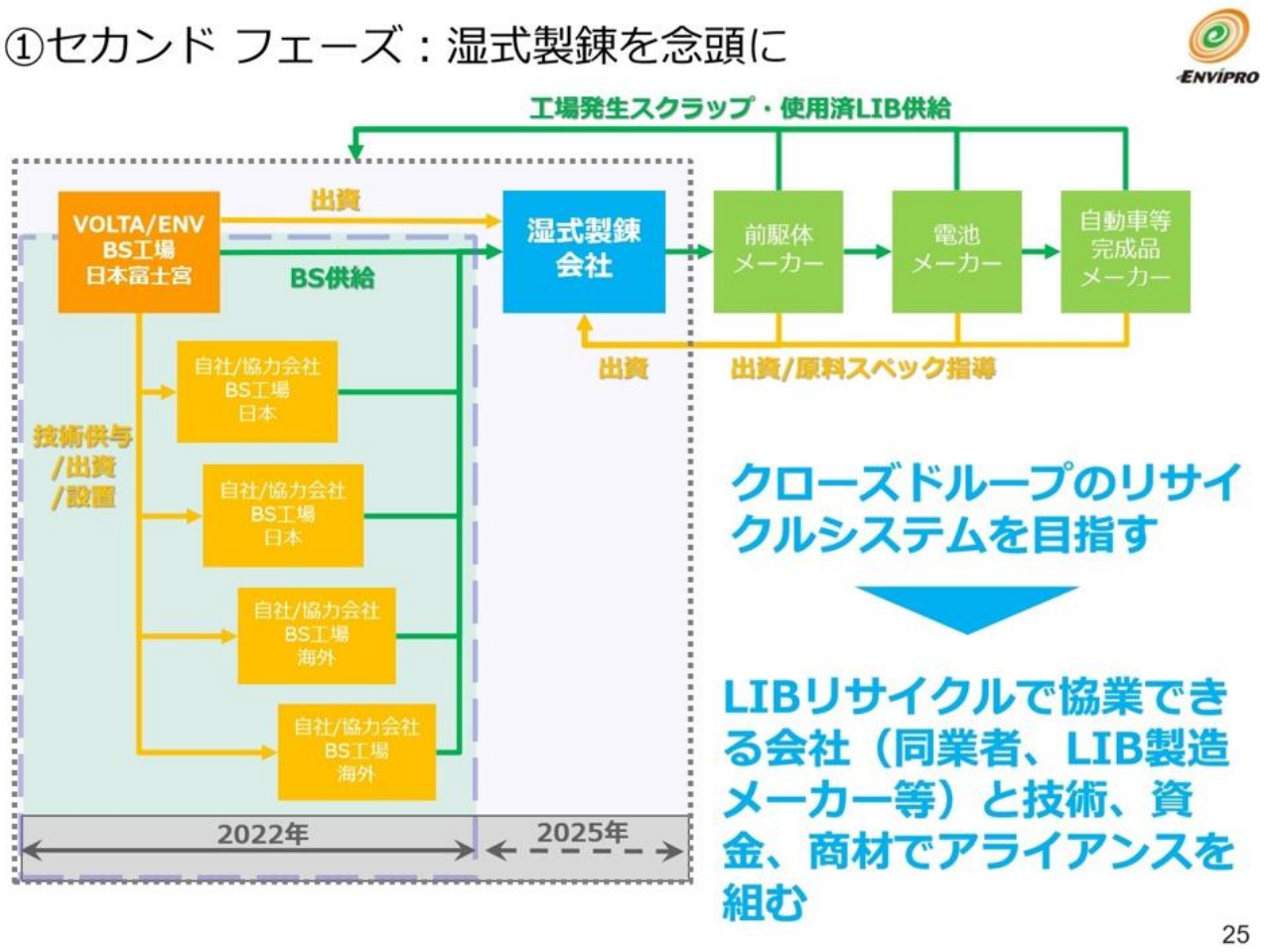
Then we crush it and collect cobalt- and nickel-enriched black powder we call black sand. If we can't follow through collecting cobalt sulfate, nickel sulfate, and lithium carbonate in ways such as using hydrometallurgy, this will end up in just an intermediate processing business.

However, the price of cobalt fell to a level close to one-third of what it was when this VOLTA was planned. The same thing applies to nickel price. We expect the situation will continue to be very severe.

However, someone has to take care of this business, especially from the entry point. In that sense, the cobalt and nickel markets decline and the content of nickel and cobalt decreases. With regard to such batteries, I think this business would represent a business model in which processing fees are charged at the entrance. Therefore, we believe a waste disposal company with technological capabilities is qualified for this business, and therefore, it is in our business domain.

Major companies, such as Sumitomo Metal Mining Co., Ltd., and Europe's Umicore, are unlikely to start from waste treatment, and so, they will spend their money on disposal in our business areas.

However, if the business is built up as a backdrop of technological strength rather than as simple incineration or simple landfill disposal, it will be possible to make up for the decline in the nickel and cobalt markets and the decline in the content of nickel and cobalt. This entry point will become extremely important. Everyone, including major companies, is hesitant to take on this challenge. Nevertheless, we are prepared to do this with invincible determination.



First, we are committed to making a success with the demonstration plant in Fujinomiya. This is the first time for us, so we will start focusing on stable operations first and then establish a safe and reliable operating system. We will create such a system without any consideration of costs.

In this industry, we use the expression "machinery attracts scrap" in terms of collection route. In order to create a framework for gathering such things, we welcome plant tours, gaining a sense of trust from our stakeholders as a result of our activities such as operation of equipment. We are determined to do this without fearing a deficit in the current fiscal year.

At the same time, we are already talking to a wide range of people. We don't know how many steel scrap companies in our industry will follow us, but some waste treatment companies, including companies that use fire for treatment, are interested in this. We would like to build the same type of plant as the Fujinomiya's plant in Japan with a minimum of two locations in the Kanto and Kansai regions, receiving investments from VOLTA.

We collected batteries with the support of a US company but found out we are not allowed to import batteries. As you are aware, batteries may explode, which is extremely dangerous. That is why ships are rejecting. There are cases where batteries explode in trucks, and this is happening nationwide. We are considering creating black sand from batteries in US and importing it to Japan. We just started working this initiative, but we hope to establish these black sand plants in Japan and overseas by 2022.

At the same time, we would like to promote a hydrometallurgy project. We would like to operate a hydrometallurgy plant in around 2025. This may become a separate company, or even a further investment in VOLTA may make VOLTA our investment ratio minor..

This is a very high hurdle because it is impossible for a company to make a big effort unless it is a company in which automakers, battery manufacturers, and precursor manufacturers have a stake. I believe that we are currently trying to take on challenges that go beyond our abilities, but the President says no problem. However, someone must do it, and the major players are getting a little bit off. As I mentioned earlier, it is important to make a steady profit at the entrance stage by charging a treatment fee and technology for enriching with black sands.

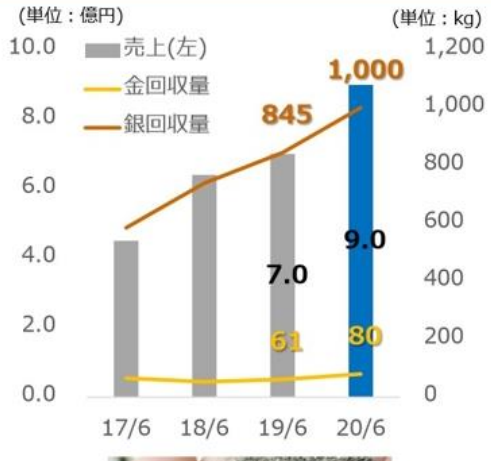
In addition, we have people in South Korea and two more locations in South Korea in terms of hydrometallurgy. We have had some of these engineers join the Company, so by communicating with them, we will establish a hydrometallurgy, because is not possible to establish them on our own. We also have to collect things.

We would like to receive investments of other companies in the same industry as well as battery manufacturers if possible. This kind of closed loop is already in place in China. Because manufacturers of batteries are already engaged in recycling by companies that sell batteries under the battery management system, I believe that it is possible to do the same thing in Japan, and we are determined to do so with a strong commitment.

For the time being, we will continue to lose money. At the start of the plan, the cobalt price was high. We were supposed to be profitable from around the third year, and I announced it to you with strong confidence. I think the situation has been changing. That’s it.

②金銀滓回収事業の拡大

焼却灰、自動車破砕残渣等からの金銀滓（銅、金、銀、プラチナ、パラジウムの混合物）の回収を事業の柱の１つにしていく





金銀滓
(ミックスメタル)

- 一般廃棄物焼却施設の落じん灰等の取引自治体数増加
  ⇒現在7自治体と契約済、20自治体が取引を検討中
- 小型家電、雑品等からの金銀滓回収
- 欧州等からの金銀滓輸入を本格立上げ
  （欧州拠点新設検討中）
- 欧米からの電子基盤スクラップ輸入の営業強化
  Ｒ２認証取得（アビヅ2019年３月、エコネコル2019年８月）
  認証企業：全国に６社（2019年8月23日現在）
- 太平洋セメント(於大船渡工場)との実証事業
  （今期中に事業化判断）
- 大手製錬会社からの加工受託拡大（電子基盤等）

※R2（Responsible Recycling＝責任あるリサイクル）認証は、米国環境保護庁（EPA））により推進される、携帯電話やテレビ、コンピューターなどの使用済みの電子機器のリサイクルを対象とした環境、労働安全衛生、情報セキュリティに関するマネジメントシステム。

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More and more local governments are entering into contracts with us in regard to gold and silver slags. Last year, I mentioned two municipalities, but now, we entered into contracts with seven municipalities, the number of which trading is increasing. Also, about 20 local governments are considering the transaction of special ash containing gold and silver, called fallen ash.

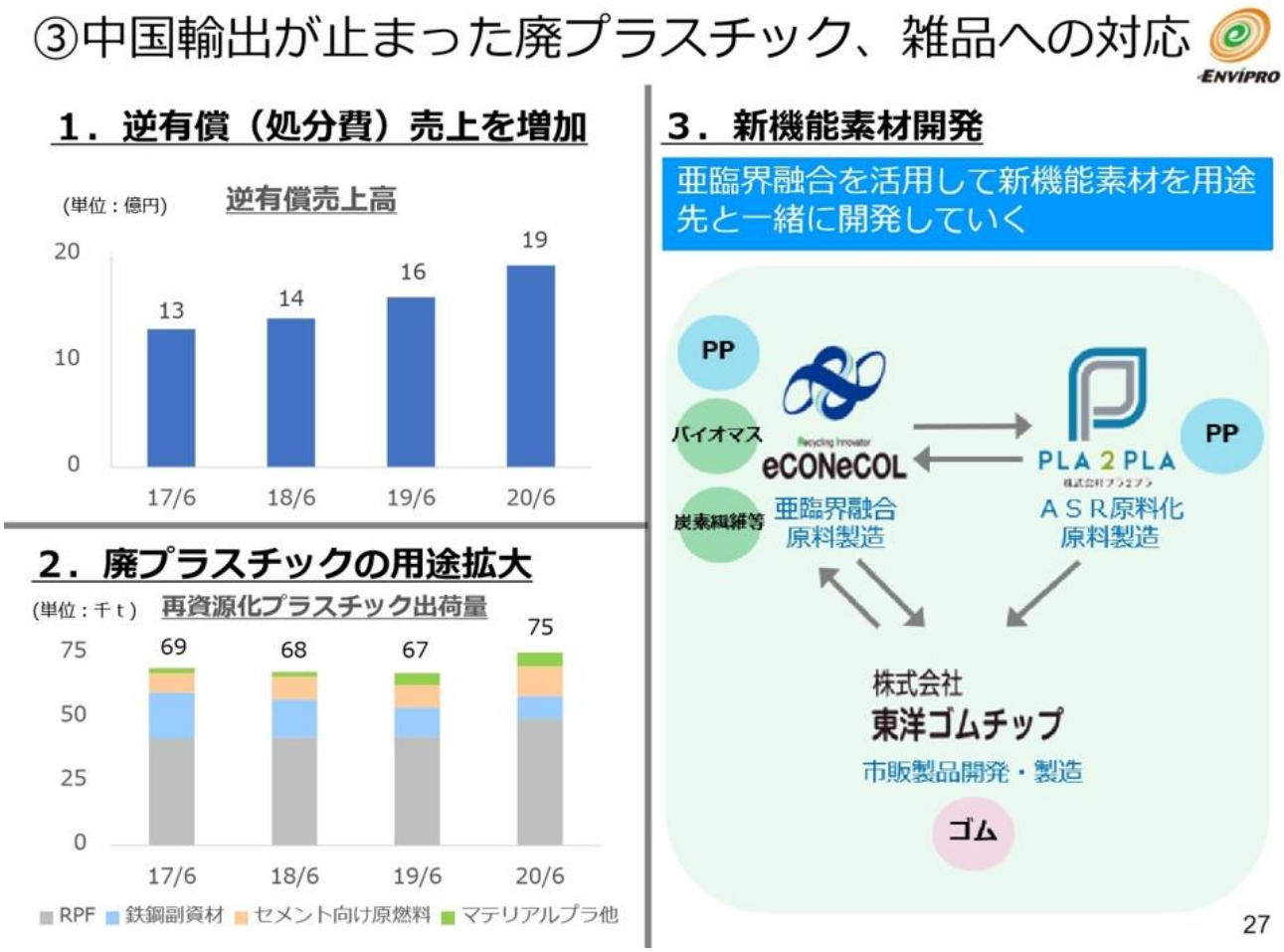
It would take a lot of time including a year to make a proposal, a year to budget, and then the project starts next year. Now, we're pooling it all the time, so if the number of contracts gradually increases to about 30 local governments, it should speed up as an image. Like the story of 100 monkeys, I strongly expect that once a certain limit is exceeded, there will be a further increase. However, this is a matter of us and our counterparts.

As small-sized home appliances and miscellaneous goods are increasing, gold and silver slags are collected from them. We will launch full-scale efforts to establish a base in Europe. A while ago, our trading manager married a British person and has moved to the United Kingdom. Now, we will start interactions with him to quickly establish a base. Since the current period, we have been hiring professional people who have been engaged in this business for many years. I believe that this area will grow at a fairly rapid pace, as we have a specialist who specializes in the boards of electronic equipment called e-scrap, not golden and silver slags from incineration ash.

In addition, there is a certification R2 in US, meaning Responsible Recycling. Arbiz Corporation, our affiliate, acquired it in March, and Econecol was able to acquire it in August because without this it would not be possible to import the electronic boards from the United States. Once certified, it will be easier to import electronic boards, and we will strengthen our sales activities for the import of scrap electronic boards from Europe and North America.

With Taiheiyo Cement Corporation, we have been working on a demonstration plant for over two years. We cannot decide on our own whether to commercialize it during the current fiscal year because we also have to consider the partner's decision. Taiheiyo Cement is very interested in the project, and in reality, we are finding gold and have been aware that gold is in the ash. However, the partner is carefully considering IRR or other factors, so we still cannot make a decision. We would like to make this decision in the current fiscal year.

Talking about outsourcing business I mentioned earlier, we are targeting 80 kilograms of gold and 1 ton of silver this year. This is probably achievable. It would be worth about 900 million yen in sales of gold and silver slags. The procurement of incinerator ash is very cheap because the disposal cost of ash is equivalent to procurement, so to speak, and the charge of treating dust produces extremely high profit margin. The figure has a direct impact on gross profit.



In addition, we intend to increase revenues from disposal for compensation of 1.6 billion yen last year to 1.9 billion yen to deal with scrap plastic and miscellaneous goods, which has been stopped to export to China. Additionally, in order to expand applications for waste plastic, we would like to increase the handling volume of RPF, steel sub-materials, cement raw materials, and fuels and especially plastic materials, which we have been dealing with for a long time of period.

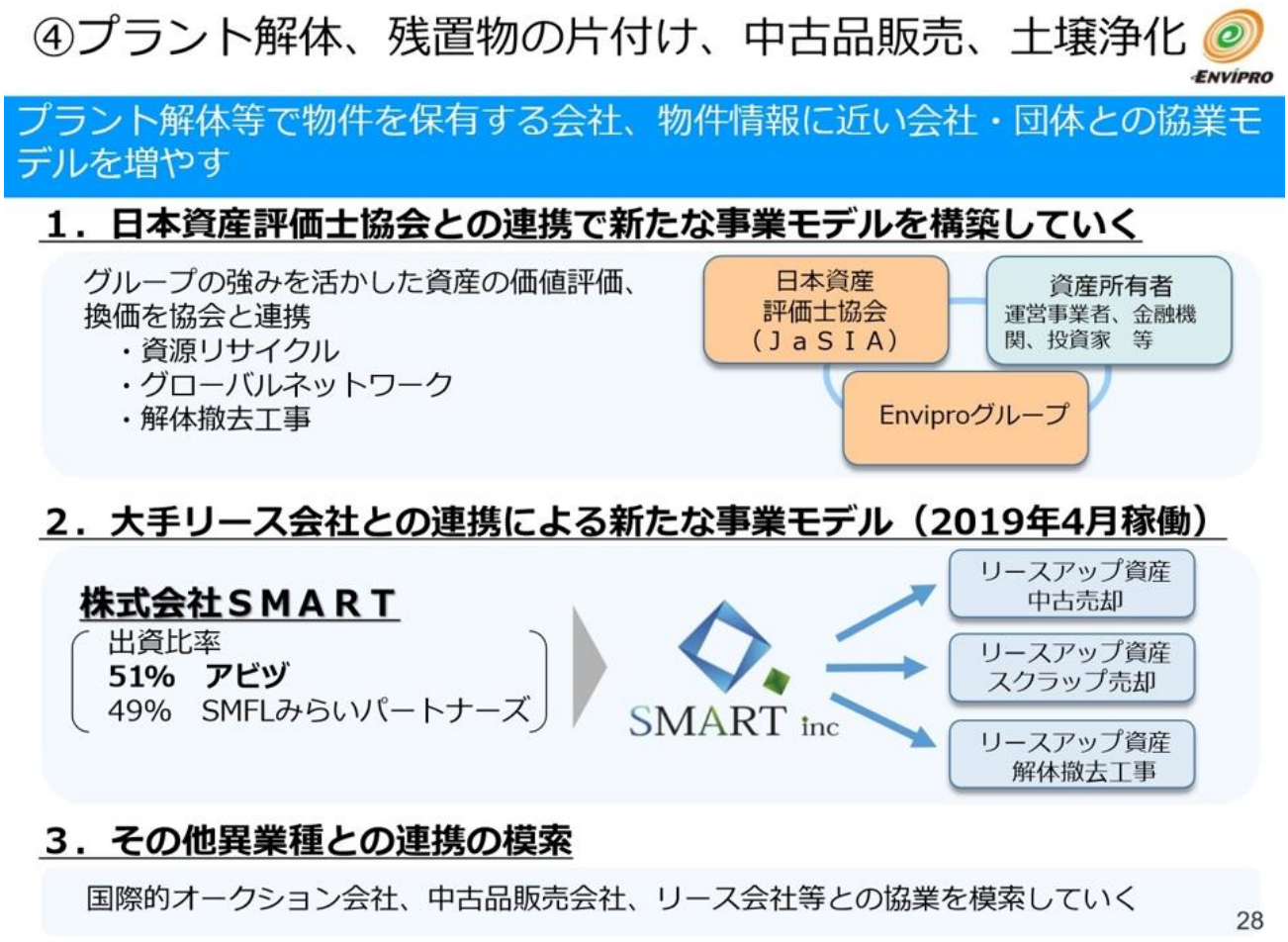
As I mentioned earlier, I am afraid to repeat this word, but even if we charge and receive a treatment fee, if we then pay treatment fee for disposal, the profit margin becomes low. We should consider waste derived from waste as a resource and then convert it into a valuable resource, selling it. How high we can raise this ratio is the very essence of our business.

Regarding the development of new functional materials, we, throwing the raw materials, have made subcritical fusion happen in a certain solid of revolution with about 200° C, 20 atmospheres, which is the condition where fusion usually doesn't take place. This is not scientifically proven, so the way we are using it may be wrong.

A new material can be created by fusing plastic and carbon fiber or by fusing biomass-based products. Today, a variety of people, including major companies and those specializing in plastics, are very interested in visiting us. There are no sales yet, though.

However, we are unable to create our own applications. People who want to use the technology ask us if we can make these kinds of things, and we prove if we can make it. That will be all we do through this period. In the meantime, we will take care of a new plant, considering the situation. We still have only two lines, which are demonstration and production lines. In that sense, there is only one production line, therefore we are considering expanding the production lines and we will increase this line over the next period while capturing the sense that we can increase it gradually.

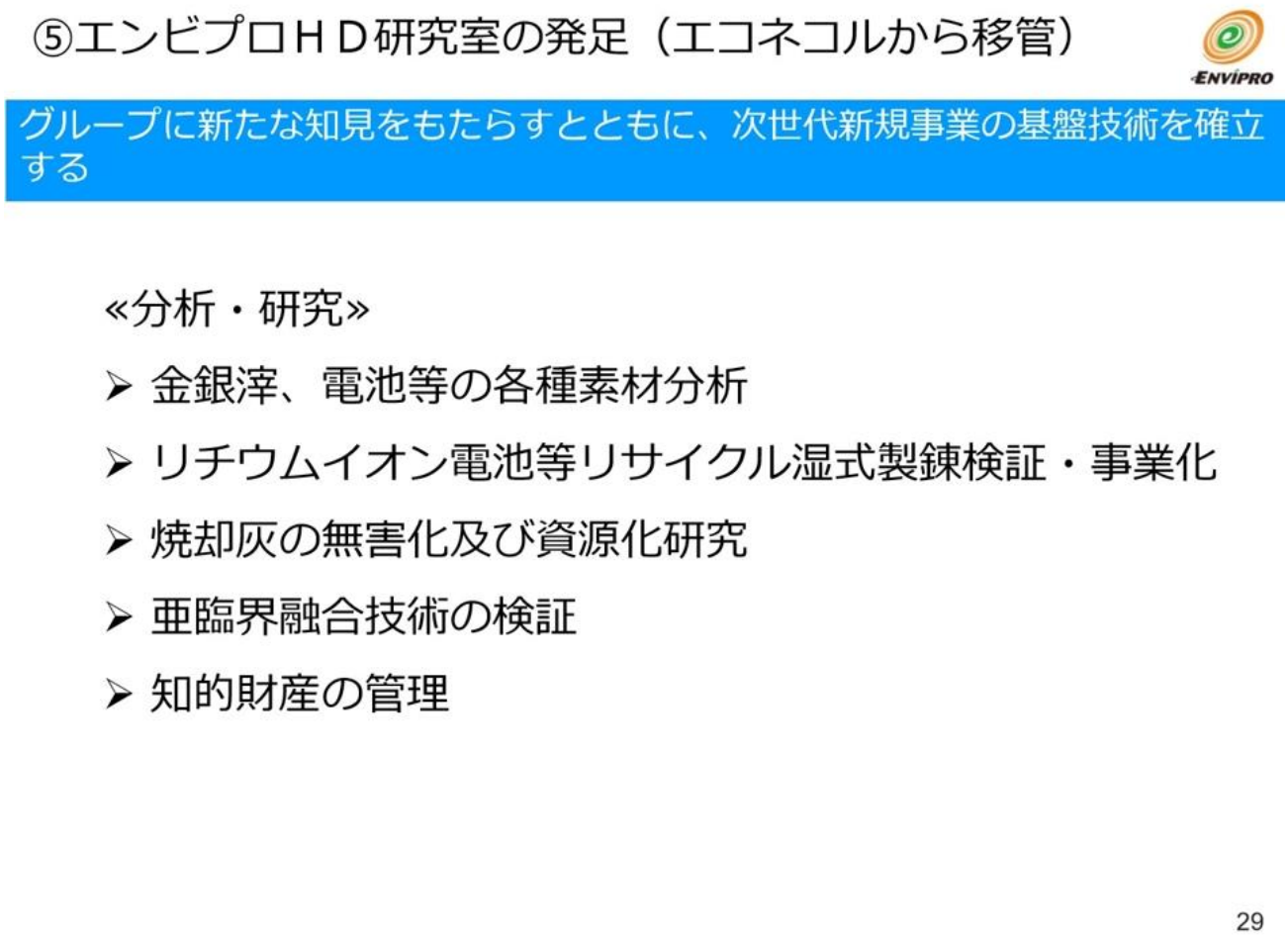
So far, we are only able to operate in the daytime, and if we do it 24 hours a day, we will be able to generate profits from the next term to the following term. This will become a big challenge for us to enter new markets in a different way from VOLTA.



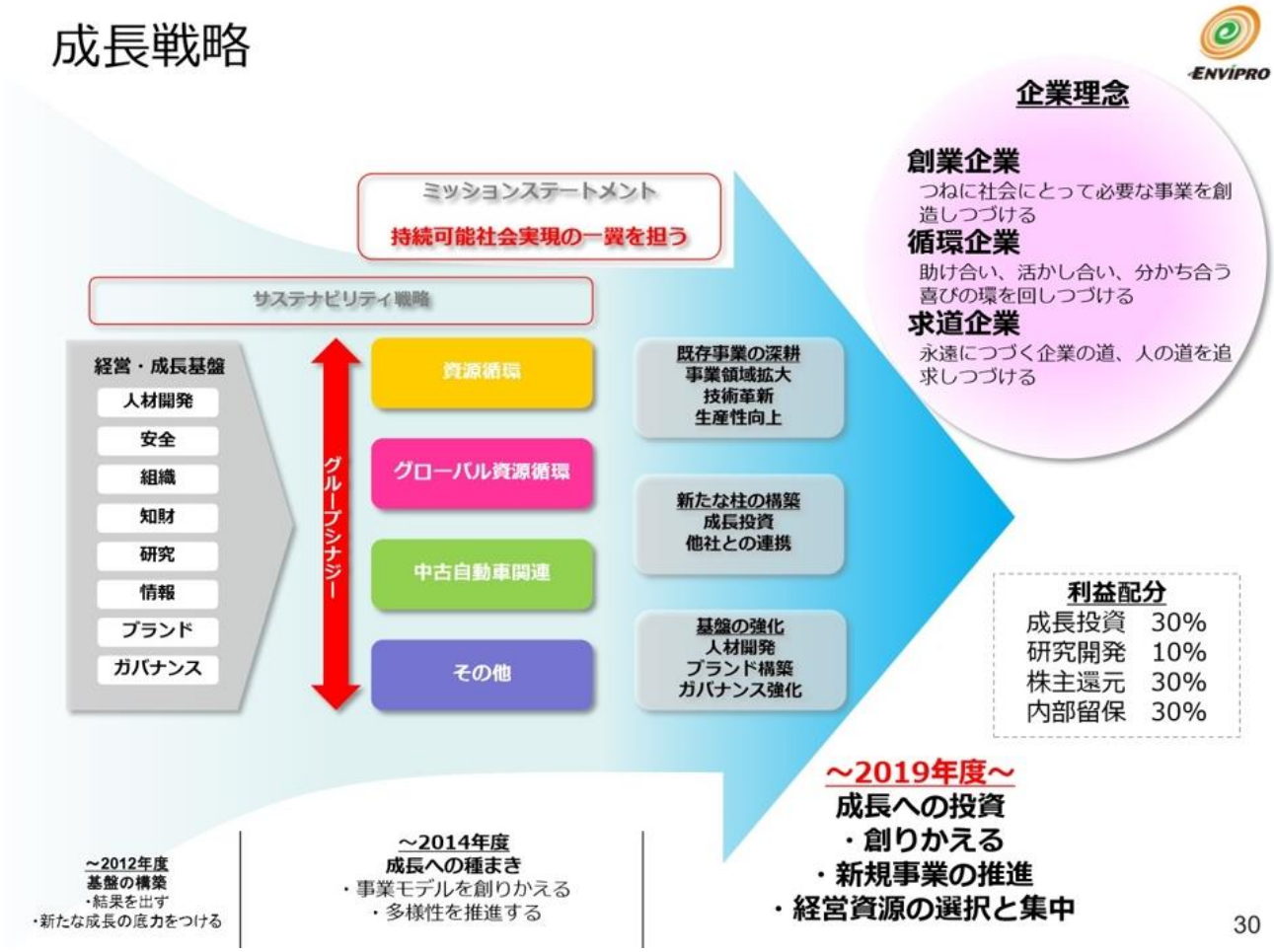
In addition, to dismantling plants and selling used products, we collaborate with the Japanese Society of Independent Appraisers. In fact, we knew about the airplane auction through this organization. They evaluate assets, and we intend to create a business model by forming a variety of alliances with this organization.

Last year, our affiliate, Arbiz, established a company Smart Inc. with its equity stake of 51%, jointly with Sumitomo Mitsui Finance and Leasing Company, Ltd. Smart owns a very large number of leased assets, so to speak, a combination of a company with a property.

We will also exchange information with other international auction companies.



This is an instruction of our laboratory. As shown in the slide, this lab plays roles in not only taking a chemical approach but also managing intellectual property. To date, it has not been very much involved in such areas but to better the Company. The lab now develops new technology, checks laws, has new employees viewed from a strict perspective, and responds to labor-related issues. This is not directly related to finance.



Our growth strategy in FY2019 will be to invest in growth from the previous fiscal year. In this fiscal year, we will work on various things, such as creating new businesses, promoting new businesses, promoting diversity, and selecting and concentrating management resources.

In particular, as regards to profit distribution, shown on the right-hand side, we allocate 30% for growth investment, 10% for R&D, 30% for shareholder returns and dividends, and 30% for internal reserves. I would like to create these standards and take on new challenges.

This is it. Thank you.